

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 98-596

February 17, 2000

PUBLIC UTILITIES COMMISSION
Investigation of Stranded Costs, Transmission
And Distribution Utility Revenue Requirements
And Rate Design of Eastern Maine Electric
Cooperative, Inc.

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

By way of this order we approve transmission and distribution (T&D) utility rates for Eastern Maine Electric Cooperative, Inc. (EMEC) effective March 1, 2000, the beginning of retail access to generation services in Maine. Under the rate schedules proposed by EMEC, it will recover \$5,795,051 in annual revenue requirements. The average T&D rate per kWh for all customers will be 6.853¢/kWh, with residential rates being 6.778¢/kWh, and large commercial rates being 5.043¢/kWh.

II. PROCEDURAL BACKGROUND

The provisions of the Electric Restructuring Act require the Commission to conduct an adjudicatory proceeding to establish transmission and distribution utility revenue requirements, and to design stranded costs and rates for each consumer-owned electric utility (COU), prior to the start of retail access in March of 2000. 35-A M.R.S.A. §§ 3508(8), 3509(2).

On August 10, 1998, the Commission issued a Notice of Investigation which initiated a stranded costs, transmission and distribution utility revenue requirements and rate design proceeding for EMEC. That notice provided interested persons with an opportunity to intervene in this matter. The Office of Public Advocate (OPA) filed a petition to intervene which was granted without objection.

On September 4, 1998, an initial case conference was held to determine the scope and processing of the case. At this conference, it was agreed that the parties would attempt to resolve the case through an informal process rather than through formal litigation. In making this determination, the parties recognized that EMEC, as a COU, operates under different legal and operational conditions than do the investor-owned utilities (IOUs). Its customers are its owners, which gives its customers more control over its decisions and actions than those of IOUs'. In addition, COUs, under 35-A M.R.S.A. § 3502, can change rates at their discretion with limited Commission oversight. Finally, instead of earning an overall rate of return on plant

investment, the rural electrification COUs maintain a reserve to provide for debt service coverage. This reserve is limited to the level necessary to maintain debt service coverage as required by the lender and in no case may exceed 40% of the total assets less reserves (35-A M.R.S.A. § 3503(D)). The necessary level is reflected when calculating revenue requirements. Therefore, when we reduce one component of revenue requirements, EMEC may offset the reduction by increasing its reserve requirements to meet its debt service coverage requirements.

EMEC's initial filing was made on November 10, 1998. During the past year, a series of technical conferences were held among the Advisory Staff and the parties to discuss the filings and further develop the case. A general consensus on principles, final rates and tariff language was reached and on November 23, 1999, EMEC submitted an updated filing reflecting these agreements. On January 14, 2000, EMEC submitted its revised tariff sheets and submitted a corrected version of one of its tariff sheets on January 31, 2000.

III. DISCUSSION

A. Revenue Requirements

EMEC based its revenue requirements on actual 1997 operating information as reported in its annual report filed with the Commission. It did not initially make any adjustments to this data. The parties recommended limited changes to the revenue requirements to remove one-time costs and adjust revenues and expense that were unlikely to occur in future years. EMEC, in its final proposed rates and supporting workpapers, reflected the changes agreed to by the parties.

We have reviewed EMEC's revised revenue requirement filing and are satisfied that this level of revenue is required for EMEC to perform its public utility service and to attract necessary capital on just and reasonable terms. We approve rates intended to collect revenue requirements of \$5,795,051.

B. Rate Design

In *Maine Public Utilities Commission, Investigation of Central Maine Power Company's Stranded Costs, Transmission and Distribution Utility Revenue Requirements and Rate Design*, Docket No. 97-580, Order at 116 (March 19, 1999), the Commission concluded that a smooth and successful transition to retail access is more likely to occur if T&D rate design undergoes only minimal changes and causes no customers to experience bill increases as a result (the "no losers" principle). In its filing, EMEC proposes rate design changes to both class allocations and rate structures to bring its T&D rates in line with its cost of service. In particular, EMEC's proposed cost-based rates would decrease average residential rates at the 500 kWh level by 4% while increasing average residential rates at the 100 kWh level by 3%. For all other classes, rates will decrease at all usage levels.

EMEC replaced its minimum bill requirement with a customer/facilities charge. The charge still includes 50 kWh. EMEC also eliminated the demand charge to the small commercial and public authority class. It also proposed to eliminate the ratchet provision for the large commercial class.

As discussed above, we desire that customers experience a smooth transition to retail access. However, we recognize COUs' unique legal and operational conditions, and we accept EMEC's assertion that the advantages of bringing rates into balance with costs will offset negative impacts caused by bill increases. Therefore, we will deviate from our stated "no-losers" principle and allow EMEC to carry out its proposed rate re-design when developing its T&D rates.

C. Transmission/Generation Clauses

EMEC has included in its rate schedules an automatic adjustment clause to reflect changes in the cost of transmission. This clause is necessary because generation providers wheel power to EMEC's territory through IOUs contiguous to EMEC. EMEC has agreed to assume the IOU's wheeling charge so that the provider need not charge its customers a premium to cover this additional transportation cost. The charge under this tariff will change each month to reflect actual costs charged to EMEC in the previous month.

EMEC currently adjusts its rates monthly to reflect fluctuating costs of purchased power. Therefore, a transmission charge that changes monthly will not be a new pricing feature to EMEC's customers.

We recognize that this transmission wheeling charge is an exogenous cost to EMEC. We accept EMEC's representation that its customers are accustomed to monthly rate fluctuations, and we accept EMEC's treatment of this charge.

IV. CONCLUSIONS

We have reviewed EMEC's proposed rate schedules filed on January 14, 2000, as corrected by its January 31, 2000 filing, and conclude the rates contained therein are just and reasonable and will provide a level of revenue necessary for EMEC to perform its public utility service and to attract necessary capital on just and reasonable terms.

Accordingly, we

ORDER

That EMEC's Rate Schedule R, Fifth Revised Sheet 1; Rate Schedule SR, Third Revised Sheet 1, Fifth Revised Sheet 2, and Second Revised Sheet 3; Rate Schedule SC, Third Revised Sheet 1, and Fifth Revised Sheet 2; Rate Schedule LC, Third Revised Sheet 1 and Fifth Revised Sheet 2; Rate Schedule SL, Third Revised Sheet 1, Sheet 2, and Fifth Revised Sheet 3; Rate Schedule AL, Third Revised Sheet 1 and Fifth Revised Sheet 2; Rate Schedule TC, Sheet 1, filed on January 14, 2000, effective

March 1, 2000, copies of which are attached hereto, are hereby approved to take effect for service provided on or after March 1, 2000.

Dated at Augusta, Maine, this 17th day of February, 2000.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Nugent
 Diamond